

The operation of a cafeteria and coffee shop, primarily for employees and medical staff, by a section 501(c)(3) hospital does not constitute unrelated trade or business under section 513 of the Code.

Advice has been requested whether, under the circumstances described below, the operation of a cafeteria and coffee shop by a hospital exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 constitutes unrelated trade or business within the meaning of section 513 of the Code.

The hospital operates a cafeteria and coffee shop in its main building, primarily for its employees and medical staff. This enables hospital personnel to eat on the premises in order for them to be available for emergency situations and other hospital duties. Persons visiting patients in the hospital are permitted to use the facilities; however, the general public is not encouraged to use them.

Section 513 of the Code defines the term 'unrelated trade or business' as any trade or business, the conduct of which is not substantially related (aside from the need of an organization for income or funds or the use it makes of the profits derived) to the exercise or performance by an organization of its exempt functions.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is 'substantially related' only if the production or distribution of the goods or the performance of the services from which the gross income is derived contributes importantly to the accomplishment of the purposes for which exemption was granted.

One of the purposes of the hospital is to provide health care for members of the community. The maintenance of the cafeteria and coffee shop on its premises for its employees and medical staff enables the hospital to operate more efficiently and thus contributes importantly to its exempt purpose. Visitation of patients constitutes supportive therapy that assists in patient treatment and encourages their recovery. By permitting visitors to use the hospital cafeteria and coffee shop, the hospital enables them to spend more time with the patients. This also contributes importantly to the hospital's exempt purpose. Accordingly, it is held that this activity is substantially related to the purpose constituting the basis for the hospital's exemption and does not constitute unrelated trade or business within the meaning of section 513 of the Code.